
Overpayments and Overawards

CHAPTER 1

An overpayment occurs when the student receives more aid than s/he was eligible to receive. One kind of overpayment, traditionally called an overaward, results from changes in the student's aid package.

This chapter does not cover returning funds when a student withdraws. Please see chapter 2 for a discussion of those returns.

OVERAWARDS

An overaward is created when the student's aid package exceeds the student's need. While you must always take care not to overaward the student when packaging aid, circumstances may change after the aid has been awarded and may result in an overaward. For instance, the student may receive an academic scholarship, or the student may want to extend his or her work-study employment. When these circumstances would lead to an overaward, you may be required to adjust the federal student aid in the package.

Pell Grants

Pell Grants are never adjusted to take into account other forms of aid. If there's an overaward, you must look at other aid that your school controls, and reduce that aid. If a student has received more Pell funds than appropriate, the Pell award must be adjusted.

Stafford Loans

If you find out that there's going to be an overaward before Stafford funds are delivered to the student, you must eliminate the overaward. If you have certified or originated the loan but haven't received the funds, you can have the lender cancel or reduce the loan. As an alternative, you could reduce or cancel aid over which you have control.

If your school has already received the funds, you have a number of options:

- If the package includes an unsubsidized Stafford Loan, Direct Unsubsidized Loan, Direct PLUS Loan, PLUS Loan, or nonfederal loan and the aid package doesn't already apply these loans to finance the EFC, the aid package can be adjusted so that all or some part of these loans replaces the EFC, thus reducing or eliminating the overaward.

Campus-based overawards, cite
34 CFR 673.5

Recovery of funds, cite
Verification 34 CFR 668.61
Immigration status 34 CFR 668.139

Overpayments, cite
FSA debts 34 CFR 668.35(e)
Pell Grants 34 CFR 690.79

Overaward and unsubsidized loan example

Hector's EFC is 4,000. His cost of attendance is \$12,000. He is supposed to receive a subsidized Stafford Loan of \$5,000 and an unsubsidized Stafford Loan of \$3,000, which completely meets his need. Before he receives his first loan disbursement, Guerrero University also gives him a \$2,000 scholarship. If Hector's entire loan amount of \$8,000 had been subsidized, Guerrero would have to send some of the loan back. But because part of the loan amount is unsubsidized, Guerrero simply considers that \$2,000 of the unsubsidized loan that applied to Hector's financial need is now being used to finance his EFC.

Example: student ineligible for part of disbursement

Owen's loan disbursement was \$1,000. However, Guerrero discovered after it received the loan funds that Owen also received a private loan, which created an overaward. Guerrero determines that the overaward is \$800. Guerrero could return just the \$800 or could instead return the entire check and have the lender issue a new check for \$200. If Owen were at a Direct Loan school, the school could return just the \$800 or return the full disbursement, cancel the loan, and originate a new loan for \$200.

FWS overaward tolerance

In general, there is no overaward tolerance for Title IV loans. However, if a student's financial aid package only contains FWS & loans, there's a \$300 overaward tolerance for the loan overaward — you only need to adjust the Stafford Loan if the overaward would exceed \$300.

- The second or subsequent disbursement of a FFEL or Direct Loan can be canceled or reduced. For a FFEL loan, you must inform the lender of the reduced award and request cancellation or reduction of subsequent disbursements. For a Direct Loan, you make the adjustments in COD.
- If these adjustments have been made and an overaward still exists for a Stafford Loan or Direct Loan borrower, you must withhold and promptly return to the lender or the federal government any funds that have not yet been delivered to the borrower. If the student is determined to be ineligible for the entire loan disbursement and the overaward cannot be reduced or eliminated, you must return the entire loan proceeds. Note that Stafford and Direct Loan overawards must be repaid before adjusting or canceling campus-based funds.
- If the student is ineligible for only a part of a disbursement, you can return the entire undelivered amount or only the amount for which the student becomes ineligible. For a Direct Loan, you can reduce the loan to eliminate the amount for which the student is ineligible. For a Stafford Loan, a school that returns the entire disbursement must request a new check for the correct amount. You must provide the lender with a written statement describing why the funds were returned, and the lender must credit to the borrower's account the portion of the insurance premium and origination fee attributable to the amount returned. If you return the entire amount and ask for a new disbursement, the student will pay only for the reduced insurance premium and origination fee (if applicable) attributable to the reduced loan amount. To return only the amount for which the student is ineligible, you must have the student endorse the loan check or, in the case of a loan disbursed by electronic funds transfer (EFT), obtain the student's authorization to release loan funds. You can then credit the student's account for the amount for which the student is eligible and promptly refund to the lender the portion of the disbursement for which the student is ineligible.

The requirement to return overawards does not apply to Stafford Loans made to cover the cost of attendance at foreign schools or to PLUS Loans.

If the overaward situation occurs after Stafford Loan funds have been delivered, there is no Stafford Loan overaward. However, you might have to adjust the aid package to prevent an overaward of campus-based funds. Although a school isn't required to return Stafford Loan funds that were delivered to the borrower (either directly or by applying them to the student account) before the overaward situation occurred, the law doesn't prevent your school from returning funds that were applied to the student account if you choose to do so. A borrower who receives a direct payment of loan funds is not required to repay an overawarded amount, unless the overaward was caused by his or her misreporting or withholding of information.

Campus-based programs

There is a \$300 **overaward tolerance/threshold** for all campus-based programs. The \$300 threshold is allowed only if an overaward occurs after campus-based aid has been packaged. The threshold does not allow a school to deliberately award campus-based aid that, in combination with other resources, exceeds the student's financial need.

If a school learns that a student has received resources that were not included in calculating the student's eligibility for aid from the Perkins Loan, FWS, or FSEOG Program that would result in the student's total resources exceeding his or her financial need by more than \$300, the school must take steps to resolve the overpayment.

Perkins and FSEOG programs

If the student's aid package includes a loan under the FFEL or Direct Loan Program, the school must first follow the overaward requirements that are presented in *Volume 3 – Calculating Awards and Packaging*. Also, a school may attempt to reduce or eliminate the overaward by changing the function of an unsubsidized loan (a Stafford Loan, a nonfederal loan, or the parents' PLUS Loan) from covering need to replacing the EFC. (However, if the sum of the loan amounts exceeds the student's EFC, the excess must be treated as a resource.)

If there is no FFEL or Direct Loan in the student's aid package or if the school eliminates the FFEL or Direct Loan and the student's aid still exceeds the student's need by more than \$300, the school should recalculate the student's need to determine whether s/he has increased need that was not anticipated when the school initially awarded aid to the student. If the student's need has increased and if the total resources do not exceed the revised need by more than \$300, the school is not required to take any additional action.

If the school recalculates the student's need and determines that the student's need has **not** increased or that his or her need has increased but that the total resources still exceed his or her need by more than \$300, the school must cancel any future loan or grant (other than a Pell Grant) disbursements (including any disbursements of campus-based aid.)

If the student's total resources still exceed his or her need by more than \$300, and the student's resources include a Perkins Loan and/or FSEOG, the amount that exceeds the student's need by more than \$300 is a Perkins Loan or FSEOG overpayment.

The student must repay the full amount of the campus-based disbursements that exceeded his or her need. However, the student cannot be required to repay FWS wages that have been earned.

FWS program

Because the student can't be required to repay wages earned, you can only adjust FWS by reducing future payments. You can continue to employ the student, but the student can't be paid from FWS funds. If you've already adjusted all other federal aid and institutional aid, and there's still an overaward, you must reimburse the FWS program from your school's funds. You cannot require the student to repay wages earned, except in the case of proven student fraud.

TREATMENT OF OVERPAYMENTS

In general, a student is liable for any Perkins Loan or FSEOG overpayment made to him or her. A Perkins Loan or FSEOG overpayment is created whenever a student receives funds that exceed his or her eligibility. For purposes of FSEOG overpayments, when a school awards FSEOG using the individual recipient or aggregate matching share methods, the FSEOG overpayment amount includes only the federal share.

Exceptions to student liability

There are some exceptions to holding a student liable for a Perkins Loan or FSEOG overpayment.

A student is not liable for a Perkins Loan or FSEOG overpayment when the school is liable for it.

In addition, a student is not liable for a Perkins Loan or FSEOG overpayment when the initial amount of the overpayment is less than \$25, or when that \$25 is neither a remaining balance nor the amount by which an initial overpayment exceeds the campus-based overaward threshold.

Overpayments and eligibility cite

HEA Sec. 484(a)(3)

34 CFR 668.22(h), 668.32(g)(4), 668.35(c)&(e)

Overpayment due to interim disbursement cite

34 CFR 668.61(a)

Such overpayments do not affect the student's Title IV eligibility. Your school need not attempt recovery of such overpayments, report them to NSLDS, or refer them to the Department.

A student is liable for overpayments of less than \$25 when that \$25 is a *remaining balance*. That is, when the overpayment amount was originally \$25 or more, but is now less than \$25 because the student has made payments.

A student is also liable for overpayments of less than \$25 when that \$25 is the *result of applying the \$300 campus-based overaward threshold/tolerance*. For example, if a school discovers that after a student's campus-based aid was disbursed, the student received additional aid that resulted in the aid the student received exceeding his/her need by \$314, the \$314 is an overaward. When the school applies the \$300 overaward tolerance, the student only has a campus-based overpayment of \$14. The student is responsible for repaying the \$14 because the initial amount of the overpayment (before the \$300 tolerance was applied) was \$314 (in excess of the \$25 *de minimus* amount).

Note: The \$300 campus-based overaward threshold does not apply when your school was aware the student had received an award but neglected to count it in his aid package.

Overpayments for which the school is responsible

Your school is liable for any amount of a Perkins Loan or FSEOG overpayment (including amounts under \$25) that occurred because your school failed to follow the procedures in 34 CFR parts 668, 673, 674, or 676. If your school makes a Perkins Loan or FSEOG overpayment in any amount for which it is liable, you must immediately restore (to your Perkins loan fund or FSEOG account, as applicable) an amount equal to the overpayment plus any administrative cost allowance claimed on the overpayment.

If returning the funds creates a debit on the student's account, the school may attempt to collect the amount of the overpayment from the student. However, this is not a Title IV debt.

If the overpayment is the result of an interim disbursement (see the *Application and Verification Guide*), you can continue to pay FSA funds to the student if she repays the overpayment in full or makes repayment arrangements that you deem satisfactory. If the student refuses to repay an overpayment resulting from an interim disbursement, you must repay it from your school's funds within 60 days following the student's last day of enrollment or by the last day of the award year, whichever comes first. Once your school repays an overpayment due to an interim disbursement, the student regains eligibility.

Examples of overpayments due to school error

Allen received a Pell at Sarven Technical Institute. Although Sarven had the correct EFC on Allen's ISIR, a different EFC was used in the Pell calculation, so Allen received too much money. Because the overpayment is due to a school error, Sarven is liable for the overpayment.

Owen received an outside scholarship to attend Guerrero University. The bursar's office was notified of the scholarship so that it would apply the payments properly, but didn't notify the financial aid office. Owen received a Perkins Loan, but the financial aid office didn't take the scholarship into account when awarding the loan because it didn't know about the scholarship. When the financial aid office later found out about the scholarship, it discovered that Owen received too much aid and had a \$600 Perkins overpayment. Because the school had information about the scholarship (even though the financial aid office didn't), the overpayment is due to a school error.

Examples of overpayments due to student error

When Chavo applied, he didn't have his W-2 forms, so he estimated his income and said that he wasn't going to file a tax return. After he received his aid from Sarven Technical Institute in June, he told the FAA that he'd underestimated his income, and had to file a tax return. When Chavo submitted the corrections, his EFC was increased, and Sarven determined that he'd received a Pell overpayment. Sarven canceled his second Pell disbursement, but he still owed \$100. Sarven allowed Chavo to make a repayment agreement to repay \$25 a month for four months so that he'd still be eligible for other aid for the rest of the year.

Meurig has to report financial information about his father on the application although he's living with his stepfather. On the 2003-2004 application, he didn't report any assets for his father, and Brust Conservatory used the information from that application to award FSA aid. However, his 2004-2005 application is selected for verification, and during the verification process Brust discovers that Meurig's father has a business that should have been reported as an asset. Brust asks for tax information for the previous year and determines that Meurig should also have reported the business as an asset on the 2003-2004 application. Meurig's EFC increases when he makes the correction, and he received an overpayment for the 2003-2004 award year. Because he's already received all his aid for the year, he has to either pay the overpayment or negotiate a satisfactory repayment agreement.

Overpayments for which the student is responsible

If a student has received more Pell funds than the student was eligible to receive (because the student was attending more than one school (a Potential Overaward Payment (**POP**) in COD), or because the student's eligibility for Pell decreased), you can try to eliminate the Pell overpayment by adjusting later Pell disbursements for the award year. **You may not reduce a student's correctly awarded and disbursed Pell grant to address overpayments in other programs.**

For FSEOG and Perkins overpayments, you can try to adjust later FSEOG and Perkins disbursements. If that is not possible, you must promptly attempt to recover the overpayment by sending a note (on paper or electronically) requesting full reimbursement. The written note must state that if the student fails to repay the overpayment or to make satisfactory arrangements for repayment, she will be ineligible for Title IV funds until the overpayment is resolved.

If the student claims that your school made a mistake in determining the overpayment, you must consider any information he provides and judge whether the objection is warranted.

If after notification to the student and consideration of possible objections an overpayment remains and the student has not repaid or made satisfactory arrangements to repay the overpayment, you must take further action.

For FSEOG and Pell, you must refer the overpayment to the Department with the required information (see *Referring overpayment cases to ED Collections* later in this chapter), and you must report to NSLDS the unresolved overpayment. You are then not required to make any further attempt to collect the FSEOG or Pell overpayment.

For Perkins loans, you are not required to refer overpayments to ED Collections, but you must report them to NSLDS, because the student is required to repay the overpayment to your school's revolving loan fund.

Your school may decide to pay the student's obligation by returning to the appropriate FSA program account the amount overpaid to the student. Once your school makes the appropriate returns, the student will no longer be considered to owe a Title IV debt, but rather a debt to your school that you can collect according to your procedures. The student's eligibility for FSA funds is restored as long as the other FSA eligibility criteria are met.

Overpayments created by exceeding loan limits

Another kind of overpayment occurs when the student has received FSA funds in excess of annual or aggregate loan limits. If the student inadvertently exceeded the limits, he or she must repay the extra loan amount in full or make repayment arrangements that are satisfactory to the loan holder. The student will remain ineligible for further FSA funds until one of these conditions is met.

Because you're responsible for knowing the student's prior FSA awards before disbursing additional funds to the student, excess borrowing shouldn't occur often. The most likely cases in which excess borrowing can occur is when the student received FSA funds at another school, and/or the student used different names or SSNs when borrowing. (See Volume 1, chapter 3 for a description of how the NSLDS postscreening and transfer monitoring processes can help prevent these kinds of overpayments.)

Reporting overpayments to NSLDS

You must report overpayments or changes to previously submitted information to NSLDS within 30 days of the date you learn of the overpayment or change.

If the grant overpayment is the result of the student's withdrawal and a return to Title IV calculation, you must contact the student within 30 days of the determination (see chapter 2).

You only report unresolved overpayments if they're due to student error; don't report overpayments that are a result of school error. Instead, as discussed previously, you must use school funds to repay the overpayment.

You must use the on-line NSLDS screens to report overpayments, which means that your school must have Internet access to NSLDS. (Dear Partner Letter GEN-00-20 gives the most recent technical specifications.)

Once the overpayment is reported to NSLDS, the student's future output documents will show that she has an overpayment (see "NSLDS Match"). The Financial Aid History section of the SAR and ISIR will have information on the overpayment, including whether the student has made satisfactory repayment arrangements.

Repayment arrangements satisfactory to the holder

For defaulted loans, the law and regulations specify what a satisfactory repayment agreement is. For students who have exceeded loan limits or owe an overpayment, the law and regulations don't say what makes a repayment agreement satisfactory. The loan holder (for exceeded loan limits) or school (for overpayments) determines whether the repayment arrangement is satisfactory.

Reporting overpayments to NSLDS

Dear Colleague Letter GEN-98-14, July 1998

School resolves student concerns before referral

If a student claims that a school's FSEOG overpayment determination is erroneous, the school must consider any information the student provides and determine whether the objection is warranted before referring the case to ED Collections.

Referring overpayment cases to ED Collections

If you have tried but not succeeded in collecting a Pell or FSEOG overpayment for which the student is liable, you must refer the overpayment to FSA's Student Management Collections (ED Collections). To be referred, the **initial amount** of the overpayment must have been at least \$25.

Note: For an FSEOG overpayment, when a school uses the individual recipient or aggregate matching methods, this overpayment includes only the federal share. When the school uses the fund-specific method of matching, the overpayment includes both the federal and nonfederal shares. See the *Volume 6 – Campus-Based Programs* for more information.

You would still refer a student debt to ED Collections of less than \$25 when the amount due was a remaining balance or, when the amount less than \$25 was the result of the application of the campus-based overaward threshold/tolerance. You must make this referral in addition to reporting the overpayment to NSLDS. If your school elects not to refer an overpayment to ED Collections, then your school is liable for the overpayment. In that case, the school must repay the overpayment from its own funds.

To refer a Pell or FSEOG overpayment case, you must provide all information necessary for collection, as described later in this chapter. In addition, when you refer the overpayment, you should update the overpayment information previously reported to NSLDS by changing the Source field from SCH-SCHOOL to TRF-TRANSFER.

School responsibility

Once you have referred the account to ED Collections, you have no further responsibility in the collection of the debt unless the student contacts your school to make repayment or unless Collections sends the referral back because it is incomplete, in which case you'll need to supply additional information and re-send the referral. If the student tells you that he wishes to make a payment, you should accept it on behalf of the Department and forward it to Collections. Make sure the student's name and SSN are on the check. If the check covers more than one student, list each student's name and SSN and each payment amount. Send it to the

**U.S. Department of Education National Payment Center
P.O. Box 4169
Greenville, Texas 75403-4169.**

If the student whose overpayment case has been accepted by the Department wishes to establish a repayment schedule, the student should contact ED Collections by calling

1-800-621-3115

or by E-mailing

dcshelp@ncs.com.

ED Collections responsibility

Upon receipt of an overpayment referral, the Department will determine if enough information has been provided to start collection activity; any referral lacking information will be returned to your school to be completed.

Collections will then try via letters and telephone to establish a repayment schedule or to secure payment in full. Collections will also update the NSLDS information that you've already reported to show that the Department now holds the overpayment. In the future, the student's SAR and ISIR will show that she still owes an overpayment but will now direct the student to contact ED Collections instead of the school.

Student Overpayment Referral to ED/FSA Collections

Not applicable for returns resulting from student withdrawals (use information in chapter 2).

Student Information

Name (Last, First, MI):

Address:

Telephone Numbers:

Social Security Number:

Date of Birth:

If your Pell Reporting ID is different than your Pell Attended ID, please report both. Otherwise, just report the Pell Attended ID.

Reporting School's Pell Identification Number

Parent/Spouse Information

Name (Last, First, MI):

Address:

Telephone Numbers:

School Information

Name of Contact:

Telephone Numbers:

Attended School's Pell Identification Number

Disbursements and Repayments

Federal Pell

Federal SEOG

Award year of overpayment:

Grant funds applied to institutional charges:

Grant funds disbursed to student:

Total Grant Disbursement:

Dates of disbursement
(must match NSLDS overpayment record):

Initial amount of overpayment:

Amount of grant for student to return:

Total grant amount repaid by student to school:

Date of last payment to school, if any:

Total being referred for collection:

*

If using individual or aggregate matching, report federal share only. Otherwise report total FSEOG. *

SEND INFORMATION TO



Student Loan Processing Center-Overpayments

P.O. Box 4157

Greenville, TX 75403

(903) 408-4595



FAX